

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF NATURAL RESOURCES

October 1, 1999 through September 30, 2001



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Report Number:
75-100-02

*Including the Provisions of the Single Audit Act
October 1, 1999 through September 30, 2001*

Department of Natural Resources (DNR)

Released
June 2002

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements and Financial Schedules:

Auditor's Reports Issued

We issued unqualified opinions on DNR's financial statements and financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify a reportable condition (Finding 1).

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Noncompliance Material to the Financial Statements and Financial Schedules

We did not identify any instances of noncompliance applicable to the financial statements and financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify certain immaterial instances of noncompliance (Findings 2 and 3).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs as major programs and issued 5 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not report any findings related to internal control over major programs.

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Required Reporting of Noncompliance

We did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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Systems of Accounting and Internal Control:

We determined that DNR was in substantial compliance with Sections

18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.664	Cooperative Forestry Assistance	Unqualified
10.665	Schools and Roads - Grants to States	Unqualified
15.605	Sport Fish Restoration Program	Unqualified
15.611	Wildlife Restoration Program	Unqualified
20.005	Boating Safety Financial Assistance	Unqualified

A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 14, 2002

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Natural Resources (DNR) for the period October 1, 1999 through September 30, 2001.

This report contains our report summary; our independent auditor's reports on the financial statements and on the financial schedules; and the DNR financial statements and financial schedules, notes to the financial statements and financial schedules, and supplemental financial statements and financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains DNR's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Independent Auditor's Report on
the Financial Statements

March 15, 2002

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the accompanying combined balance sheet of the Department of Natural Resources as of September 30, 2001 and September 30, 2000 and the related combined statement of revenues, expenditures, and changes in fund balances for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1d, the accompanying financial statements present only specific funds administered by the Department of Natural Resources and are not intended to present fairly the financial position and results of operations of the Department; the State of Michigan; or the State's special revenue, permanent, and capital projects funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Department of Natural Resources' funds, as listed in Note 1a, as of September 30, 2001 and September 30, 2000 and the results of operations for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 5, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The statement required that certain special revenue funds be reclassified to permanent funds.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying supplemental financial statements, consisting of the combining balance sheets and the combining statements of revenues, expenditures, and changes in fund balances, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Schedules

March 15, 2002

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the accompanying schedule of General Fund revenues and transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Natural Resources for the fiscal years ended September 30, 2001 and September 30, 2000. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1d, the accompanying financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Natural Resources' General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Natural Resources for the fiscal years ended September 30, 2001 and September 30, 2000, on the basis of accounting described in Note 1c.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

DEPARTMENT OF NATURAL RESOURCES

Combined Balance Sheet

As of September 30

(in thousands)

	Governmental Fund Types					
	Special Revenue Funds		Permanent Funds		Capital Projects Fund	
	2001	2000	2001	2000	2001	2000
ASSETS						
Cash	\$ 282	\$	\$	\$	\$	\$
Equity in Common Cash (Note 2)	147,126	182,179	64,670	258,703	2,265	16,638
Taxes, interest, and penalties receivable	219	103				
Amounts due from other funds		92			534	
Amounts due from federal agencies	928	2,573				
Inventories	76	81				
Other current assets	6,973	7,153	12,461	14,602		
Investments - Long-term (Note 2)	83,212	34,767	333,134	109,389		
Other noncurrent assets		800		339		
Total Assets	\$ 238,816	\$ 227,748	\$ 410,264	\$383,033	\$ 2,800	\$ 16,638
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 1,809	\$ 1,959	\$ 913	\$ 570	\$ 17	\$ 15
Accounts payable and other liabilities	25,187	15,366	9,418	35,130	3,845	2,001
Amounts due to other funds	6,582	457	7	8	534	
Deferred revenue	1,012	176				
Deferred revenue - Long-term		800		339		
Total Liabilities	\$ 34,590	\$ 18,759	\$ 10,338	\$ 36,047	\$ 4,396	\$ 2,015
Fund Balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 14,138	\$ 10,215	\$ 16,804	\$ 18,512	\$	\$
Restricted revenues (Note 3)	16,442	13,926				
Multi-year projects	29,479	44,446	30,771	23,210		
Funds held as permanent investments	92,685	93,324	298,371	263,068		
Unrealized gain (loss) on investments	3,570	(571)	14,384	(909)		
Total Reserved	\$ 156,313	\$ 161,338	\$ 360,329	\$303,881	\$ 0	\$ 0
Unreserved	47,913	47,651	39,597	43,105	(1,596)	14,622
Total Fund Balances	\$ 204,226	\$ 208,989	\$ 399,926	\$346,986	\$ (1,596)	\$ 14,622
Total Liabilities and Fund Balances	\$ 238,816	\$ 227,748	\$ 410,264	\$383,033	\$ 2,800	\$ 16,638

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF NATURAL RESOURCES
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
(in thousands)

	Governmental Fund Types					
	Special Revenue Funds		Permanent Funds		Capital Projects Fund	
	2001	2000	2001	2000	2001	2000
REVENUES						
Taxes	\$ 447	\$ 616	\$	\$	\$	\$
From federal agencies	3,150	4,564				
From licenses and permits:						
Boat registration	9,664	9,326				
Camping fees	15,370	16,668				
Hunting, fishing, and trapping licenses	48,009	47,456				
Motor vehicle parking	10,278	9,946				
Other licenses and permits	2,839	2,297				
Miscellaneous:						
Interest and investment revenue	12,797	12,995	23,308	21,513	568	1,063
Unrealized gain (loss) on investments	4,140	16	15,293	280		
Sale of timber	24,974	26,355				
Oil, gas, and mineral royalties	8,770	4,803	52,225	38,751		
Other miscellaneous revenue	1,857	3,729	397	1,106	233	(233)
Total Revenues	<u>\$ 142,294</u>	<u>\$ 138,770</u>	<u>\$ 91,224</u>	<u>\$ 61,649</u>	<u>\$ 801</u>	<u>\$ 830</u>
EXPENDITURES						
Current	\$ 149,698	\$ 126,657	\$ 18,576	\$ 17,440	\$	\$
Capital outlay projects	8,909	10,362	19,626	14,700	17,017	5,327
Total Expenditures	<u>\$ 158,607</u>	<u>\$ 137,018</u>	<u>\$ 38,202</u>	<u>\$ 32,140</u>	<u>\$ 17,017</u>	<u>\$ 5,327</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (16,313)</u>	<u>\$ 1,752</u>	<u>\$ 53,022</u>	<u>\$ 29,509</u>	<u>\$ (16,216)</u>	<u>\$ (4,497)</u>
OTHER FINANCING SOURCES						
Proceeds from bond issues	\$	\$ 151	\$	\$	\$	\$ 15,382
Transfers in:						
Investment income from Game and Fish Protection Trust Fund	6,021	5,275				
Oil and gas royalties from Michigan Natural Resources Trust Fund			10,000	10,000		
Gas tax from Michigan Transportation Fund	14,785	14,891				
From other funds	6,000	2,400				
Total Financing Sources	<u>\$ 26,806</u>	<u>\$ 22,717</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 15,382</u>
OTHER FINANCING USES						
Transfers out:						
To General Fund for other departments' services provided	\$ (3,235)	\$ (2,949)	\$ (81)	\$ (81)	\$ (2)	\$ (2)
To other funds	(12,021)	(5,275)	(10,000)	(10,000)		
Total Financing Uses	<u>\$ (15,257)</u>	<u>\$ (8,223)</u>	<u>\$ (10,081)</u>	<u>\$ (10,081)</u>	<u>\$ (2)</u>	<u>\$ (2)</u>
Total Other Financing Sources (Uses)	<u>\$ 11,550</u>	<u>\$ 14,494</u>	<u>\$ (81)</u>	<u>\$ (81)</u>	<u>\$ (2)</u>	<u>\$ 15,380</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (4,763)</u>	<u>\$ 16,246</u>	<u>\$ 52,940</u>	<u>\$ 29,428</u>	<u>\$ (16,218)</u>	<u>\$ 10,883</u>
Fund Balances - Beginning of fiscal year	208,989	192,743	346,986	317,558	14,622	3,739
Fund Balances - End of fiscal year	<u>\$ 204,226</u>	<u>\$ 208,989</u>	<u>\$ 399,926</u>	<u>\$ 346,986</u>	<u>\$ (1,596)</u>	<u>\$ 14,622</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF NATURAL RESOURCES
Schedule of General Fund Revenues and Transfers
Fiscal Years Ended September 30
(in thousands)

	<u>2001</u>	<u>2000</u>
REVENUES		
From federal agencies	\$ 23,091	\$ 20,699
From licenses and permits:		
Snowmobile registration and trail fees	4,494	4,581
Off-road vehicle licenses	2,594	2,475
Other licenses and permits	867	850
Miscellaneous:		
Withdrawal fees - farmland and open spaces agreements		2,157
Revenue from sales of land and leases	4,836	4,013
Other miscellaneous	<u>3,357</u>	<u>3,612</u>
Total Revenues	<u>\$ 39,239</u>	<u>\$ 38,387</u>
TRANSFERS		
From Michigan Transportation Fund	\$ 3,696	\$ 3,723
From Bottle Deposits Fund	<u>402</u>	<u>281</u>
Total Transfers	<u>\$ 4,098</u>	<u>\$ 4,003</u>
Total Revenues and Transfers	<u>\$ 43,337</u>	<u>\$ 42,391</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(in thousands)

	<u>2001</u>	<u>2000</u>
SOURCES OF AUTHORIZATIONS (Note 4)		
General purpose appropriations	\$ 53,679	\$ 77,745
Budgetary adjustments		186
Balances carried forward	42,756	40,084
Restricted financing sources	45,712	45,747
Less: Intrafund expenditure reimbursements	<u>(3,285)</u>	<u>(4,029)</u>
Total	<u>\$ 138,862</u>	<u>\$ 159,732</u>
DISPOSITION OF AUTHORIZATIONS (Note 4)		
Gross expenditures and transfers	\$ 112,540	\$ 120,879
Less: Intrafund expenditure reimbursements	<u>(3,285)</u>	<u>(4,029)</u>
Net expenditures and transfers	<u>\$ 109,255</u>	<u>\$ 116,850</u>
Balances carried forward:		
Multi-year projects	\$ 6,817	\$ 14,325
Encumbrances	2,011	4,162
Restricted revenue - not authorized	<u>15,826</u>	<u>24,270</u>
Total balances carried forward	<u>\$ 24,654</u>	<u>\$ 42,756</u>
Balances lapsed	<u>\$ 4,952</u>	<u>\$ 126</u>
Total	<u>\$ 138,862</u>	<u>\$ 159,732</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Statements and Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity - Financial Statements

The accompanying financial statements report the financial position and results of operations of the following funds administered by the Department of Natural Resources (DNR) as of and for the fiscal years ended September 30, 2001 and September 30, 2000:

Special Revenue

Game and Fish Protection Fund

Michigan State Waterways Fund

Marine Safety Fund

Game and Fish Protection Trust Fund

State Park Improvement Fund

Combined Recreation Bond Fund - Local Projects

Michigan Nongame Fish and Wildlife Fund

Forest Development Fund

Permanent

Michigan Natural Resources Trust Fund

Michigan State Parks Endowment Fund

Michigan Civilian Conservation Corps Endowment Fund

Capital Projects

Combined Recreation Bond Fund - State Projects

These funds are a part of the State of Michigan reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

b. Reporting Entity - Financial Schedules

The accompanying financial schedules report the results of the General Fund operations of DNR for the fiscal years ended September 30, 2001 and September 30, 2000.

c. Basis of Accounting

The financial statements and financial schedules contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

d. Basis of Presentation

The accompanying financial statements present only the funds listed in Note 1a. Accordingly, these financial statements are not intended to present fairly the financial position and results of operations of DNR; the State of Michigan; or the State's special revenue, permanent, and capital projects funds. The accompanying financial schedules include only the revenues and transfers and the sources and disposition of authorizations for DNR's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DNR or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; Compensated Absences; Deposits and Investments; and Interfund Receivables and Payables.

The financial transactions of DNR are recorded in the General Fund and individual funds in the State's central accounting system. The various natural resource funds are combined in the *SOMCAFR* into governmental fund types described as follows:

Special Revenue Funds: This fund group includes operating fund activities financed by specific revenue sources that are legally restricted for specified purposes.

Permanent Funds: This fund group reports resources that are legally restricted to the extent that only earnings, and not principal, may be

used for purposes that benefit the government or its citizenry, such as State park preservation and others.

Capital Projects Fund: This group accounts for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes.

Note 2 Permanent Investments

During fiscal year 2000-01, DNR and the Department of Treasury agreed to move significantly larger amounts of common cash balances available for permanent investment into long-term investments in United States government securities, yielding a higher rate of return. By statute, the State Treasurer is responsible for investing balances available for permanent investment. The State Treasurer, by agreement with DNR, invests up to the amount available for permanent investment each year. The State Treasurer is currently prohibited by State law from investing in equity securities.

Note 3 Fund Balances Reserved for Restricted Revenues

The line entitled "Total Reserved" on the combined balance sheet includes the following fund balances (in thousands) reserved for revenues restricted for specific purposes:

	September 30	
	2001	2000
<u>Game and Fish Protection Fund</u>		
Deer Habitat Improvement	\$ 5,301	\$ 5,097
Fisheries Settlement	1,058	1,653
Wildlife Resource Protection	1,651	1,718
Waterfowl Area Permits Program		7
Turkey Program	2,758	2,995
Youth Hunting and Fishing Education Outreach	181	130
Pittman-Robertson Program	482	627
Dingell-Johnson Program	66	8
Duck Stamp	1,217	998
Private Funds - Game and Fish Protection Fund		18
Total	\$ 12,714	\$ 13,251
<u>Michigan State Waterways Fund</u>		
Harbor Development Subfund	\$ 3,728	\$ 675
Total	\$ 3,728	\$ 675
Total Restricted Revenue Reserves	\$ 16,442	\$ 13,926

Note 4 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- d. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- f. Encumbrances: Authorizations carried forward to finance payments for goods and services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

- g. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, DNR had not received legislative authorization to expend the revenue.
- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 5 Accounting Changes and Restatements

Governmental Accounting Standards Board Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This Statement's requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types and account groups. As a result, the following DNR funds were reclassified from special revenue funds to permanent funds:

Michigan Natural Resources Trust Fund
Michigan State Parks Endowment Fund
Michigan Civilian Conservation Corps Endowment Fund

Note 6 Contingencies Related to Litigation

DNR accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. DNR is a party to various legal proceedings seeking damages or injunctive or other relief.

Note 7 Subsequent Event - Clean Michigan Initiative

In October 2001, the State issued \$59.8 million of Clean Michigan Initiative bonds. Of that issuance, \$34.1 million was issued for local parks and recreation enhancement opportunities through DNR and \$21.4 million was issued for State park revitalization through DNR.

SUPPLEMENTAL FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Descriptions of Special Revenue Funds

GAME AND FISH PROTECTION FUND

This Fund was established in 1921 and operates under Part 435, Act 451, P.A. 1994, as amended, and is financed principally by the sale of hunting and fishing licenses. The license fees are set by statute and their purpose is to support the conservation program for preservation and control of fish and wildlife. The Fund also receives funding from the investment earnings of the Game and Fish Protection Trust Fund. The Fund provides financial support for Statewide hunting and fishing programs, including resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes.

MICHIGAN STATE WATERWAYS FUND

This Fund was established in 1947 and operates under Part 781, Act 451, P.A. 1994, as amended. The Fund receives a portion of watercraft registration fees and gasoline taxes, which are collected by other State agencies and transferred to this Fund. The Fund also receives revenue from boating access site and concession fees. The Fund provides for improvement of lake harbors and inland waterways; construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration.

MARINE SAFETY FUND

This Fund was established in 1967 and operates under Part 801, Act 451, P.A. 1994, as amended. The Fund is financed principally by 49% of watercraft registration fees imposed by this act. The Fund provides for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State.

GAME AND FISH PROTECTION TRUST FUND

This Fund was established in 1986 and operates under Part 437, Act 451, P.A. 1994, as amended, to restrict certain assets for the purpose of generating interest and earnings for transfer to the Game and Fish Protection Fund each year. Additional investment funding is being provided by mineral royalties from lands acquired by the Game and Fish Protection Fund, direct sale proceeds, and other revenues, which, by statute, are retained for permanent investment.

STATE PARK IMPROVEMENT FUND

This Fund was established in 1960 and operates under Part 741, Act 451, P.A. 1994, as amended. The Fund is primarily financed by State park use and concession fees and motor vehicle permit fees necessary for entry by motor vehicles into designated State parks. These fees are the primary funding source for the operation, maintenance, and improvements of the State park system.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

This Fund was established in 1988 and operates under Parts 196 and 715, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and investment earnings remaining from two bond packages. The first bond package was \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects. The second bond package was \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative." The proceeds from the bond package approved in 1988 are being used to provide grants and loans to local units of government in the amounts of \$65 million to local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. The proceeds from the bond package approved in 1998 are being used to provide grants to local units of government for local recreation projects.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

This Fund was established in 1983 and currently operates under Part 439, Act 451, P.A. 1994, as amended. Fund revenues are used to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. During fiscal year 1999-2000, the Fund received a transfer from the General Fund of \$2.4 million for the purpose of reaching the \$6 million level for funds held for investment. As a result, statutory authority for the State income tax check-off, which provided revenue for this Fund in past years, expired and is no longer available. The Fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales, beginning in calendar year 2001.

FOREST DEVELOPMENT FUND

This Fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Part 505, Act 451, P.A. 1994, as amended. The Authority is authorized to acquire: standing timber, timber cutting rights, and the State's interest in

contracts granting cutting rights on State tax reverted lands and on other lands in the State forest system. Revenues are derived from the sale of forest products and are used for forest management operations and practices. The Authority may issue, but thus far has not issued, bonds.

DEPARTMENT OF NATURAL RESOURCES

Combining Balance Sheet

Special Revenue Funds

As of September 30

(in thousands)

	Game and Fish Protection Fund		Michigan State Waterways Fund		Marine Safety Fund	
	2001	2000	2001	2000	2001	2000
ASSETS						
Cash	\$ 5	\$	\$ 9	\$	\$	\$
Equity in Common Cash	30,188	22,840	66,359	66,041	6,339	7,269
Taxes, interest, and penalties receivable			219	103		
Amounts due from other funds						
Amounts due from federal agencies	327	416	84	34	516	177
Inventories			76	81		
Other current assets	3,822	5,320	5			
Investments - Long-term	251					
Other noncurrent assets						
Total Assets	<u>\$ 34,593</u>	<u>\$ 28,576</u>	<u>\$ 66,752</u>	<u>\$ 66,260</u>	<u>\$ 6,854</u>	<u>\$ 7,446</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 420	\$ 241	\$ 314	\$ 1,241	\$ 835	\$ 53
Accounts payable and other liabilities	5,157	4,234	2,852	1,482	1,945	2,884
Amounts due to other funds	294	241	45	36	1	1
Deferred revenue						
Deferred revenue - Long-term						
Total Liabilities	<u>\$ 5,871</u>	<u>\$ 4,715</u>	<u>\$ 3,212</u>	<u>\$ 2,758</u>	<u>\$ 2,782</u>	<u>\$ 2,937</u>
Fund Balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 2,083	\$ 2,446	\$ 10,374	\$ 5,372	\$ 86	\$ 45
Restricted revenues	12,714	13,251	3,728	675		
Multi-year projects		112	23,586	38,428		
Funds held as permanent investments	1,827	1,829				
Unrealized gain (loss) on investments	1					
Total Reserved	<u>\$ 16,625</u>	<u>\$ 17,638</u>	<u>\$ 37,689</u>	<u>\$ 44,475</u>	<u>\$ 86</u>	<u>\$ 45</u>
Unreserved	12,097	6,224	25,852	19,026	3,987	4,464
Total Fund Balances	<u>\$ 28,722</u>	<u>\$ 23,861</u>	<u>\$ 63,541</u>	<u>\$ 63,501</u>	<u>\$ 4,073</u>	<u>\$ 4,509</u>
Total Liabilities and Fund Balances	<u>\$ 34,593</u>	<u>\$ 28,576</u>	<u>\$ 66,752</u>	<u>\$ 66,260</u>	<u>\$ 6,854</u>	<u>\$ 7,446</u>

This schedule continued on next page.

Game and Fish Protection Trust Fund		State Park Improvement Fund		Combined Recreation Bond Fund - Local Projects	
2001	2000	2001	2000	2001	2000
\$ 9,988	\$ 48,361	\$ 228 14,385	\$ 17,070	\$ 2,853	\$ 3,952
					92
2,228 82,209	1,796 34,767	871	24		
			800		
<u>\$ 94,424</u>	<u>\$ 84,924</u>	<u>\$ 15,484</u>	<u>\$ 17,893</u>	<u>\$ 2,853</u>	<u>\$ 4,044</u>
\$	\$	\$ 92 2,387 27 1,012	\$ 291 2,182 12 176 800	\$ 8 10,159 6,136	\$ 2,485 93
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,518</u>	<u>\$ 3,461</u>	<u>\$ 16,302</u>	<u>\$ 2,578</u>
\$	\$	\$ 772 5,893	\$ 1,386 5,905	\$	\$
84,858 3,567	85,495 (571)				
\$ 88,424 6,000	\$ 84,924	\$ 6,665 5,301	\$ 7,291 7,141	\$ 0 (13,450)	\$ 0 1,466
<u>\$ 94,424</u>	<u>\$ 84,924</u>	<u>\$ 11,966</u>	<u>\$ 14,432</u>	<u>\$ (13,450)</u>	<u>\$ 1,466</u>
<u>\$ 94,424</u>	<u>\$ 84,924</u>	<u>\$ 15,484</u>	<u>\$ 17,893</u>	<u>\$ 2,853</u>	<u>\$ 4,044</u>

DEPARTMENT OF NATURAL RESOURCES
Combining Balance Sheet
Special Revenue Funds
As of September 30
(in thousands)
Continued

	Michigan Nongame Fish and Wildlife Fund		Forest Development Fund		Total	
	2001	2000	2001	2000	2001	2000
ASSETS						
Cash	\$	\$	\$	\$	\$	\$
Equity in Common Cash	5,992	6,998	11,022	9,649	147,126	182,179
Taxes, interest, and penalties receivable					219	103
Amounts due from other funds					0	92
Amounts due from federal agencies			1	1,946	928	2,573
Inventories					76	81
Other current assets	36		11	12	6,973	7,153
Investments - Long-term	752				83,212	34,767
Other noncurrent assets					0	800
Total Assets	\$ 6,781	\$ 6,998	\$ 11,074	\$ 11,607	\$ 238,816	\$ 227,748
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants outstanding	\$ 14	\$ 23	\$ 126	\$ 111	\$ 1,809	\$ 1,959
Accounts payable and other liabilities	78	69	2,608	2,031	25,187	15,366
Amounts due to other funds	5	2	74	73	6,582	457
Deferred revenue					1,012	176
Deferred revenue - Long-term					0	800
Total Liabilities	\$ 97	\$ 94	\$ 2,808	\$ 2,216	\$ 34,590	\$ 18,759
Fund Balances:						
Reserves for:						
Budgetary carry-forwards:						
Encumbrances	\$ 137	\$ 47	\$ 685	\$ 918	\$ 14,138	\$ 10,215
Restricted revenues					16,442	13,926
Multi-year projects					29,479	44,446
Funds held as permanent investments	6,000	6,000			92,685	93,324
Unrealized gain (loss) on investments	2				3,570	(571)
Total Reserved	\$ 6,140	\$ 6,047	\$ 685	\$ 918	\$ 156,313	\$ 161,338
Unreserved	545	857	7,581	8,473	47,913	47,651
Total Fund Balances	\$ 6,684	\$ 6,904	\$ 8,266	\$ 9,391	\$ 204,226	\$ 208,989
Total Liabilities and Fund Balances	\$ 6,781	\$ 6,998	\$ 11,074	\$ 11,607	\$ 238,816	\$ 227,748

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DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(in thousands)

	Game and Fish Protection Fund		Michigan State Waterways Fund		Marine Safety Fund	
	2001	2000	2001	2000	2001	2000
REVENUES						
Taxes	\$	\$	\$ 447	\$ 616	\$	\$
From federal agencies	2,068	3,359	612	222	470	298
From licenses and permits:						
Boat registration			4,926	4,756	4,733	4,570
Camping fees						
Hunting, fishing, and trapping licenses	48,009	47,456				
Motor vehicle parking						
Other licenses and permits	1	1	1,339	953		
Miscellaneous:						
Interest and investment revenue	1,277	1,461	3,434	3,852	302	390
Unrealized gain (loss) on investments						
Sale of timber	154	253				
Oil, gas, and mineral royalties	218	99				
Other miscellaneous revenue	553	2,323	827	576	58	57
Total Revenues	<u>\$ 52,280</u>	<u>\$ 54,952</u>	<u>\$ 11,585</u>	<u>\$ 10,975</u>	<u>\$ 5,562</u>	<u>\$ 5,314</u>
EXPENDITURES						
Current	\$ 55,769	\$ 55,304	\$ 21,777	\$ 15,588	\$ 4,908	\$ 4,652
Capital outlay projects	2,257	4,545	4,181	3,333		
Total Expenditures	<u>\$ 58,026</u>	<u>\$ 59,849</u>	<u>\$ 25,957</u>	<u>\$ 18,920</u>	<u>\$ 4,908</u>	<u>\$ 4,652</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (5,746)</u>	<u>\$ (4,897)</u>	<u>\$ (14,372)</u>	<u>\$ (7,945)</u>	<u>\$ 655</u>	<u>\$ 662</u>
OTHER FINANCING SOURCES						
Proceeds from bond issues	\$	\$	\$	\$	\$	\$
Transfers in:						
Investment income from Game and Fish Protection Trust Fund	6,021	5,275				
Gas tax from Michigan Transportation Fund			14,785	14,891		
From other funds	6,000					
Total Financing Sources	<u>\$ 12,021</u>	<u>\$ 5,275</u>	<u>\$ 14,785</u>	<u>\$ 14,891</u>	<u>\$ 0</u>	<u>\$ 0</u>
OTHER FINANCING USES						
Transfers out:						
To General Fund for other departments' services provided	\$ (1,415)	\$ (1,244)	\$ (373)	\$ (338)	\$ (1,091)	\$ (1,038)
To other funds						
Total Financing Uses	<u>\$ (1,415)</u>	<u>\$ (1,244)</u>	<u>\$ (373)</u>	<u>\$ (338)</u>	<u>\$ (1,091)</u>	<u>\$ (1,038)</u>
Total Other Financing Sources (Uses)	<u>\$ 10,607</u>	<u>\$ 4,031</u>	<u>\$ 14,412</u>	<u>\$ 14,553</u>	<u>\$ (1,091)</u>	<u>\$ (1,038)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 4,860</u>	<u>\$ (866)</u>	<u>\$ 40</u>	<u>\$ 6,607</u>	<u>\$ (436)</u>	<u>\$ (376)</u>
Fund Balances - Beginning of fiscal year	23,861	24,727	63,501	56,894	4,509	4,885
Fund Balances - End of fiscal year	<u>\$ 28,722</u>	<u>\$ 23,861</u>	<u>\$ 63,541</u>	<u>\$ 63,501</u>	<u>\$ 4,073</u>	<u>\$ 4,509</u>

This schedule continued on next page.

Game and Fish Protection Trust Fund		State Park Improvement Fund		Combined Recreation Bond Fund - Local Projects	
2001	2000	2001	2000	2001	2000
\$	\$	\$	\$	\$	\$
		5			
		15,370	16,668		
		10,278	9,946		
		1,498	1,342		
6,021	5,285	639	921	162	224
4,138	16				
2,820	3,241				
8,552	4,704				
1		43	54	48	(42)
\$ 21,533	\$ 13,245	\$ 27,834	\$ 28,931	\$ 210	\$ 181
\$	\$	\$ 27,798	\$ 26,715	\$ 15,122	\$ 3,126
		2,297	2,282		
\$ 0	\$ 0	\$ 30,095	\$ 28,996	\$ 15,122	\$ 3,126
\$ 21,533	\$ 13,245	\$ (2,261)	\$ (66)	\$ (14,913)	\$ (2,945)
\$	\$	\$	\$	\$	\$ 151
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 151
\$ (11)	\$ (10)	\$ (205)	\$ (176)	\$ (3)	\$ (2)
(12,021)	(5,275)				
\$ (12,032)	\$ (5,285)	\$ (205)	\$ (176)	\$ (3)	\$ (2)
\$ (12,032)	\$ (5,285)	\$ (205)	\$ (176)	\$ (3)	\$ 149
\$ 9,500	\$ 7,960	\$ (2,467)	\$ (242)	\$ (14,916)	\$ (2,796)
84,924	76,964	14,432	14,674	1,466	4,262
\$ 94,424	\$ 84,924	\$ 11,966	\$ 14,432	\$ (13,450)	\$ 1,466

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(in thousands)
Continued

	Michigan Nongame Fish and Wildlife Fund		Forest Development Fund		Totals	
	2001	2000	2001	2000	2001	2000
REVENUES						
Taxes	\$	\$	\$	\$	\$ 447	\$ 616
From federal agencies			1	685	3,150	4,564
From licenses and permits:						
Boat registration					9,664	9,326
Camping fees					15,370	16,668
Hunting, fishing, and trapping licenses					48,009	47,456
Motor vehicle parking					10,278	9,946
Other licenses and permits			1	1	2,839	2,297
Miscellaneous:						
Interest and investment revenue	371	320	589	542	12,797	12,995
Unrealized gain (loss) on investments	2				4,140	16
Sale of timber			21,999	22,862	24,974	26,355
Oil, gas, and mineral royalties					8,770	4,803
Other miscellaneous revenue	174	562	152	199	1,857	3,729
Total Revenues	<u>\$ 548</u>	<u>\$ 882</u>	<u>\$ 22,742</u>	<u>\$ 24,290</u>	<u>\$ 142,294</u>	<u>\$ 138,770</u>
EXPENDITURES						
Current	\$ 763	\$ 942	\$ 23,562	\$ 20,330	\$ 149,698	\$ 126,657
Capital outlay projects			174	202	8,909	10,362
Total Expenditures	<u>\$ 763</u>	<u>\$ 942</u>	<u>\$ 23,736</u>	<u>\$ 20,533</u>	<u>\$ 158,607</u>	<u>\$ 137,018</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (215)</u>	<u>\$ (60)</u>	<u>\$ (993)</u>	<u>\$ 3,757</u>	<u>\$ (16,313)</u>	<u>\$ 1,752</u>
OTHER FINANCING SOURCES						
Proceeds from bond issues	\$	\$	\$	\$	\$ 0	\$ 151
Transfers in:						
Investment income from Game and Fish Protection Trust Fund					6,021	5,275
Gas tax from Michigan Transportation Fund					14,785	14,891
From other funds		2,400			6,000	2,400
Total Financing Sources	<u>\$ 0</u>	<u>\$ 2,400</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 26,806</u>	<u>\$ 22,717</u>
OTHER FINANCING USES						
Transfers out:						
To General Fund for other departments' services provided	\$ (5)	\$ (4)	\$ (132)	\$ (135)	\$ (3,235)	\$ (2,949)
To other funds					(12,021)	(5,275)
Total Financing Uses	<u>\$ (5)</u>	<u>\$ (4)</u>	<u>\$ (132)</u>	<u>\$ (135)</u>	<u>(15,257)</u>	<u>\$ (8,223)</u>
Total Other Financing Sources (Uses)	<u>\$ (5)</u>	<u>\$ 2,396</u>	<u>\$ (132)</u>	<u>\$ (135)</u>	<u>\$ 11,550</u>	<u>\$ 14,494</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (220)</u>	<u>\$ 2,336</u>	<u>\$ (1,125)</u>	<u>\$ 3,622</u>	<u>\$ (4,763)</u>	<u>\$ 16,246</u>
Fund Balances - Beginning of fiscal year	6,904	4,568	9,391	5,768	208,989	192,743
Fund Balances - End of fiscal year	<u>\$ 6,684</u>	<u>\$ 6,904</u>	<u>\$ 8,266</u>	<u>\$ 9,391</u>	<u>\$ 204,226</u>	<u>\$ 208,989</u>

Descriptions of Permanent Funds

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for a Michigan Natural Resources Trust Fund. The Fund, established in 1985, operates under Part 19, Act 451, P.A. 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the Fund. Part 19 was amended in 1995 to redirect a portion (\$10 million per year) of these revenues to the Michigan State Parks Endowment Fund.

In accordance with statutory provisions, this Fund is to accumulate up to \$400 million in reserves for permanent investments. The amount accumulated toward this cap is shown as a reservation of fund balance. Investment earnings and one-third of royalty earnings are available for appropriation. Two-thirds of royalty earnings, less the portion transferred to the Michigan State Parks Endowment Fund, are added to amounts held for permanent investments until the investment reserve reaches \$200 million. After that time, all royalties are restricted for investment and only interest is available for appropriation. Appropriated funds are used for grants to local units of government as well as State agencies to acquire or develop outdoor public recreation facilities.

MICHIGAN STATE PARKS ENDOWMENT FUND

This Fund was established in 1994 and operates under Part 741, Act 451, P.A. 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The Fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investments. Article IX, Section 36 of the State Constitution provides that up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are to be deposited in this Fund until its accumulated principal reaches \$400 million. The Fund's investment reserve will be capped at \$800 million. The Legislature is limited to appropriating no more than \$5 million, adjusted for inflation, each year from the Fund until the cap is attained. When the Fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

This Fund was established by Act 394, P.A. 1994, as amended. The Michigan Civilian Conservation Corps was established for the purpose of conserving, improving, and

developing the State's natural resources and for enhancing, preserving, and maintaining public lands and waters through the employment of residents of this State in work training programs. The Fund's permanent investment reserve was provided by \$20 million earmarked from the sale of the Accident Fund of Michigan. Only the interest earnings of the Fund can be expended.

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DEPARTMENT OF NATURAL RESOURCES
Combining Balance Sheet
Permanent Funds
As of September 30
(in thousands)

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund	
	2001	2000	2001	2000
ASSETS				
Equity in Common Cash	\$ 33,292	\$ 181,848	\$ 12,251	\$ 54,741
Investments - Long-term	235,633	70,404	95,495	38,985
Other current assets	10,755	14,015	1,704	587
Other noncurrent assets		339		
Total Assets	\$ 279,680	\$ 266,607	\$ 109,450	\$ 94,312
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants outstanding	\$ 861	\$ 532	\$ 44	\$ 31
Accounts payable and other liabilities	8,741	34,439	477	590
Amounts due to other funds	5	5	3	3
Deferred revenue - Long-term		339		
Total Liabilities	\$ 9,607	\$ 35,316	\$ 524	\$ 624
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	\$ 16,192	\$ 17,285	\$ 545	\$ 1,189
Multi-year projects	29,509	22,307	1,262	904
Funds held as permanent investments	182,006	157,189	96,365	85,879
Unrealized gain (loss) on investments	9,676	(479)	4,702	(429)
Total Reserved	\$ 237,383	\$ 196,302	\$ 102,874	\$ 87,542
Unreserved	32,690	34,990	6,053	6,146
Total Fund Balances	\$ 270,073	\$ 231,292	\$ 108,927	\$ 93,688
Total Liabilities and Fund Balances	\$ 279,680	\$ 266,607	\$ 109,450	\$ 94,312

Michigan Civilian Conservation Corps Endowment Fund		Total	
2001	2000	2001	2000
\$ 19,127	\$ 22,114	\$ 64,670	\$ 258,703
2,006		333,134	109,389
1		12,461	14,602
		0	339
<u>\$ 21,134</u>	<u>\$ 22,114</u>	<u>\$ 410,264</u>	<u>\$ 383,033</u>
\$ 8	\$ 7	\$ 913	\$ 570
200	101	9,418	35,130
		7	8
		0	339
<u>\$ 208</u>	<u>\$ 108</u>	<u>\$ 10,338</u>	<u>\$ 36,047</u>
\$ 66	\$ 38	\$ 16,804	\$ 18,512
		30,771	23,210
20,000	20,000	298,371	263,068
6		14,384	(909)
<u>\$ 20,072</u>	<u>\$ 20,038</u>	<u>\$ 360,329</u>	<u>\$ 303,881</u>
854	1,969	39,597	43,105
<u>\$ 20,927</u>	<u>\$ 22,006</u>	<u>\$ 399,926</u>	<u>\$ 346,986</u>
<u>\$ 21,134</u>	<u>\$ 22,114</u>	<u>\$ 410,264</u>	<u>\$ 383,033</u>

DEPARTMENT OF NATURAL RESOURCES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
Fiscal Years Ended September 30
(in thousands)

	Michigan Natural Resources Trust Fund		Michigan State Parks Endowment Fund	
	2001	2000	2001	2000
REVENUES				
Miscellaneous:				
Interest and investment revenue	\$ 15,527	\$ 14,198	\$ 6,600	\$ 5,941
Unrealized gain (loss) on investments	10,155	109	5,132	170
Oil, gas, and mineral royalties	52,225	38,751		
Other miscellaneous revenue	396	1,104	1	2
Total Revenues	<u>\$ 78,304</u>	<u>\$ 54,162</u>	<u>\$ 11,733</u>	<u>\$ 6,113</u>
EXPENDITURES				
Current	\$ 11,027	\$ 10,397	\$ 5,289	\$ 5,802
Capital outlay projects	<u>18,451</u>	<u>13,764</u>	<u>1,175</u>	<u>936</u>
Total Expenditures	<u>\$ 29,478</u>	<u>\$ 24,161</u>	<u>\$ 6,464</u>	<u>\$ 6,738</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 48,826</u>	<u>\$ 30,001</u>	<u>\$ 5,268</u>	<u>\$ (625)</u>
OTHER FINANCING SOURCES				
Transfers in:				
Oil and gas royalties from Michigan Natural Resources Trust Fund	\$	\$	\$ 10,000	\$ 10,000
Total Financing Sources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
OTHER FINANCING USES				
Transfers out:				
To General Fund for other departments' services provided	\$ (44)	\$ (43)	\$ (30)	\$ (29)
To other DNR funds	<u>(10,000)</u>	<u>(10,000)</u>		
Total Financing Uses	<u>\$ (10,044)</u>	<u>\$ (10,043)</u>	<u>\$ (30)</u>	<u>\$ (29)</u>
Total Other Financing Sources (Uses)	<u>\$ (10,044)</u>	<u>\$ (10,043)</u>	<u>\$ 9,970</u>	<u>\$ 9,971</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 38,781	\$ 19,957	\$ 15,239	\$ 9,345
Fund Balances - Beginning of fiscal year	<u>231,292</u>	<u>211,334</u>	<u>93,688</u>	<u>84,343</u>
Fund Balances - End of fiscal year	<u>\$ 270,073</u>	<u>\$ 231,292</u>	<u>\$ 108,927</u>	<u>\$ 93,688</u>

Michigan Civilian Conservation Corps Endowment Fund		Totals	
2001	2000	2001	2000
\$ 1,181 6	\$ 1,374	\$ 23,308 15,293 52,225 397	\$ 21,513 280 38,751 1,106
<u>\$ 1,187</u>	<u>\$ 1,374</u>	<u>\$ 91,224</u>	<u>\$ 61,649</u>
 \$ 2,260	 \$ 1,240	 \$ 18,576 19,626	 \$ 17,440 14,700
<u>\$ 2,260</u>	<u>\$ 1,240</u>	<u>\$ 38,202</u>	<u>\$ 32,140</u>
<u>\$ (1,073)</u>	<u>\$ 133</u>	<u>\$ 53,022</u>	<u>\$ 29,509</u>
 \$	 \$	 \$ 10,000	 \$ 10,000
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
 \$ (7)	 \$ (9)	 \$ (81) (10,000)	 \$ (81) (10,000)
<u>\$ (7)</u>	<u>\$ (9)</u>	<u>\$ (10,081)</u>	<u>\$ (10,081)</u>
<u>\$ (7)</u>	<u>\$ (9)</u>	<u>\$ (81)</u>	<u>\$ (81)</u>
 \$ (1,080)	 \$ 125	 \$ 52,940	 \$ 29,428
<u>22,006</u>	<u>21,882</u>	<u>346,986</u>	<u>317,558</u>
<u><u>\$ 20,927</u></u>	<u><u>\$ 22,006</u></u>	<u><u>\$ 399,926</u></u>	<u><u>\$ 346,986</u></u>

Description of Capital Projects Fund

COMBINED RECREATION BOND FUND - STATE PROJECTS

This Fund was established in 1988 and operates under Parts 196 and 715, Act 451, P.A. 1994, as amended. The balances remaining in the Fund reflect proceeds and investment earnings remaining from two bond packages. The first bond package was \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects. The second bond package was \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative." The proceeds from the bond package approved in 1988 are being used to construct, expand, and develop recreational facilities at State parks. The proceeds from the bond package approved in 1998 are being used for infrastructure improvements at State parks.

The capital projects fund's financial statements appear on pages 11 and 12.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Certain General Fund Assets and Liabilities
Fiscal Years Ended September 30
(in thousands)

ASSETS	<u>2001</u>	<u>2000</u>
Amounts due from federal agencies	\$ 7,767	\$ 6,503
Amounts due from other funds	\$ 528	
Amounts due from local units	\$ 14	\$ 394
Amounts due from component units	\$ 83	\$ 83
Inventories	\$ 25	\$ 27
Other current assets	\$ 1,027	\$ 530
LIABILITIES		
Amounts due to vendors for goods and services	\$ 4,162	\$ 4,191
Amounts due to local units for tax-reverted land	\$ 327	\$ 6,020
Amounts due to other funds	\$ 9	\$ 7
Amounts due to component units	\$ 474	\$ 436
Amounts held for others	\$ 1,664	\$ 1,690
Deferred revenue	\$ 168	\$ 89

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of Natural Resources. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

DEPARTMENT OF NATURAL RESOURCES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001

		For the Fiscal Year Ended September 30, 2000		
Federal Agency/Program	CFDA (2) Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
Forestry Incentives Program	10.064	\$ 4,033	\$	\$ 4,033
Conservation Reserve Program	10.069	9,354		9,354
Cooperative Forestry Assistance	10.664	1,011,839	331,503	1,343,342
Schools and Roads - Grants to States	10.665		3,175,113	3,175,113
Rural Development, Forestry, and Communities	10.672	30,000		30,000
Soil Survey	10.903			0
Farmland Protection Program	10.913	421,293		421,293
Total U.S. Department of Agriculture		\$ 1,476,519	\$ 3,506,616	\$ 4,983,135
<u>U.S. Department of Commerce</u>				
Direct Programs:				
Anadromous Fish Conservation Act Program	11.405	\$ 11,028	\$	\$ 11,028
Interjurisdictional Fisheries Act of 1986	11.407	12,536		12,536
Total U.S. Department of Commerce		\$ 23,564	\$ 0	\$ 23,564
<u>U.S. Department of the Interior</u>				
Direct Programs:				
Sport Fish Restoration Program	15.605	\$ 7,223,083	\$	\$ 7,223,083
Wildlife Restoration Program	15.611	9,670,996		9,670,996
Cooperative Endangered Species Conservation Fund	15.615	228,302		228,302
Clean Vessel Act	15.616			0
U.S. Geological Survey - Research and Data Acquisition	15.808	100,975		100,975
Outdoor Recreation - Acquisition, Development and Planning	15.916	9,394	128,960	138,354
Endangered Species	15.301810J068 (3)			0
Gap Analysis Program	15.99HQAG0185 (3)	30,225		30,225
Total U.S. Department of the Interior		\$ 17,262,975	\$ 128,960	\$ 17,391,935
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Boating Safety Financial Assistance	20.005	\$ 2,199,616	\$	\$ 2,199,616
Recreational Trails Program	20.219	644,803		644,803
Total U.S. Department of Transportation		\$ 2,844,419	\$ 0	\$ 2,844,419
<u>U.S. Environmental Protection Agency</u>				
Direct Programs:				
Wetlands Grants	66.461	\$ 23,542	\$	\$ 23,542
Great Lakes Program	66.469	105,690		105,690
Environmental Protection - Consolidated Research	66.500	22,568		22,568
Total U.S. Environmental Protection Agency		\$ 151,800	\$ 0	\$ 151,800
Total Federal Expenditures		\$ 21,759,277	\$ 3,635,576	\$ 25,394,853

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Natural Resources and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements and financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

For the Fiscal Year Ended September 30, 2001			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 4,703	\$	\$ 4,703	\$ 8,736
		0	9,354
972,955	527,917	1,500,872	2,844,214
	3,912,825	3,912,825	7,087,938
29,907		29,907	59,907
181,249		181,249	181,249
		0	421,293
\$ 1,188,814	\$ 4,440,742	\$ 5,629,556	\$ 10,612,691
\$ 12,598	\$	\$ 0	\$ 11,028
		12,598	25,134
\$ 12,598	\$ 0	\$ 12,598	\$ 36,162
\$ 7,935,713	\$	\$ 7,935,713	\$ 15,158,796
8,658,025		8,658,025	18,329,021
106,658		106,658	334,960
	35,281	35,281	35,281
611,046		611,046	712,021
97,798	50,900	148,698	287,052
26,000		26,000	26,000
103,894		103,894	134,119
\$ 17,539,134	\$ 86,181	\$ 17,625,315	\$ 35,017,250
\$ 2,347,643	\$	\$ 2,347,643	\$ 4,547,259
689,151		689,151	1,333,954
\$ 3,036,794	\$ 0	\$ 3,036,794	\$ 5,881,213
\$ 15,711	\$	\$ 15,711	\$ 39,253
		0	105,690
10,286		10,286	32,854
\$ 25,997	\$ 0	\$ 25,997	\$ 177,797
\$ 21,803,337	\$ 4,526,923	\$ 26,330,260	\$ 51,725,113

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

March 15, 2002

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

We have audited the financial statements and financial schedules of the Department of Natural Resources as of and for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our reports thereon dated March 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements and financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement and schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as Findings 2 and 3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and financial schedules and not to

provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and financial schedules. A reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements and financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition identified in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the Natural Resources Commission, the State's management, the Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 15, 2002

Mr. Keith J. Charters, Chairperson
Natural Resources Commission
and
Mr. K.L. Cool, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan

Dear Mr. Charters and Mr. Cool:

Compliance

We have audited the compliance of the Department of Natural Resources with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary

in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Natural Resources complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Natural Resources Commission, the State's management, the Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Statements and Financial Schedules

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

Reportable condition* identified that is not considered to be a material weakness? Yes

Noncompliance material to the financial statements and financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? No

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.664	Cooperative Forestry Assistance
10.665	Schools and Roads - Grants to States
15.605	Sport Fish Restoration Program
15.611	Wildlife Restoration Program
20.005	Boating Safety Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$1,551,753

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements and Financial Schedules

FINDING (750201)

1. Cost Allocation for Central Service Costs*

The Department of Natural Resources (DNR) did not base its allocation of central service costs on a documented cost allocation plan. As a result, it did not have assurance that its charges to State restricted funding sources were appropriate.

DNR's appropriations acts for fiscal years 1994-95, 1995-96, and 1996-97 required that DNR establish and use a cost allocation process that allocates intradepartmental charges among divisions. To fulfill this requirement, DNR contracted for a plan to allocate its central service costs to State funding sources. The first complete allocation plan prepared by the consultant was based on actual costs for fiscal year 1995-96 and was received by DNR in August 1997. The consultant has since prepared cost allocation plans for each completed fiscal year.

* See glossary at end of report for definition.

DNR administrative staff informed us that DNR had used the consultant's cost allocation plan as part of its process for determining annual budget requests for State funding sources. However, DNR did not maintain documentation demonstrating how its budgeted allocation amounts had been determined.

For fiscal year 1999-2000, DNR's costs for central services totaled approximately \$16.5 million. We reviewed the allocations of central service costs totaling approximately \$5.4 million for three appropriation units (executive direction, human resources, and rent). We compared the actual cost allocations to funding sources for these appropriation units with the allocated amounts based on the plan prepared by the consultant. We noted that the average difference for the 33 restricted State funding sources was approximately \$60,000.

For fiscal years 1999-2000 and 2000-01, DNR appeared to allocate costs for central services based on prior years' budgeted amounts. Basing its annual budget requests for State funding sources for central services on a documented cost allocation plan that accurately represents the level of service provided would provide DNR assurance that it uses its various State restricted funding sources appropriately. For fiscal year 1999-2000, DNR received appropriations for its operations totaling \$161.8 million from 35 restricted State funding sources.

RECOMMENDATION

We recommend that DNR base its allocation of central service costs on a documented cost allocation plan.

FINDING (750202)

2. Appropriation for Senior Citizen License Fee Discounts

DNR did not ensure that it complied with statutory requirements for funding appropriated for senior citizen hunting and fishing license fee discounts.

Section 324.43546 of the *Michigan Compiled Laws* provides that the Legislature shall annually appropriate to DNR from the General Fund an amount equal to the senior citizen hunting and fishing license fee discounts in the preceding license year.

DNR's annual appropriations acts for fiscal years 1999-2000 and 2000-01 each provided that \$2.21 million of the General Fund appropriations for administrative services was for the Game and Fish Protection Fund to provide senior citizen license fee reimbursement under Section 324.43546 of the *Michigan Compiled Laws*. Therefore, this funding should be used for the same restricted purposes as other Game and Fish Protection Fund money. However, DNR's accounting records did not have documentation to support the appropriate use of the funding. As a result, DNR did not have assurance that it had complied with statutory requirements.

RECOMMENDATION

We recommend that DNR ensure that it complies with statutory requirements for funding appropriated for senior citizen hunting and fishing license fee discounts.

FINDING (750203)

3. Distribution of Indirect Cost Revenue

DNR did not distribute federal indirect cost revenue to the respective funding sources of the costs recovered as required by Section 18.1460 of the *Michigan Compiled Laws*.

Section 18.1460 of the *Michigan Compiled Laws* provides that revenue for indirect cost charges shall be credited to the respective State funds to offset State expenditures for which indirect costs were provided.

With the assistance of a consultant, DNR annually determines an indirect cost rate for charging its federal grants for the State costs associated with administering the grants. The indirect cost rate is applied to certain direct grant expenditures and the resulting amounts are billed to the granting federal agency. Allocatable DNR and Statewide costs are accumulated in an indirect cost pool used to calculate the rate.

We analyzed DNR's indirect cost rate for fiscal year 1999-2000 and the resulting distributions of the indirect cost revenue for this fiscal year. Our analysis disclosed:

- a. The costs in the indirect cost pool were funded 24.4% by General Fund appropriations, 64.4% by six DNR special revenue funds, and 5.1% by restricted revenue sources. The other 6.1% of the costs in the indirect cost

pool consisted of Statewide costs allocated from the Statewide cost allocation plan.

- b. The indirect cost revenue for DNR for fiscal year 1999-2000 was \$2,231,176. Of this amount, \$160,118 (7.2%) was distributed to the General Fund and \$2,071,058 (92.8%) was distributed to two DNR special revenue funds. The costs in the indirect cost pool were funded 39.3% by the two special revenue funds that received indirect cost revenue distributions.

To comply with statutory requirements and ensure that indirect cost revenue is equitably distributed, indirect cost revenue should be distributed to funding sources based on their proportionate shares of costs included in the indirect cost pool.

A similar finding was included in our performance audit of Statewide Federal Indirect Cost Recovery and Usage, issued in June 2000. DNR agreed with that finding.

RECOMMENDATION

We recommend that DNR distribute federal indirect cost revenue to the respective funding sources of the costs recovered as required by Section 18.1460 of the *Michigan Compiled Laws*.

The status of the findings related to the financial statements and financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

We did not report any findings related to federal awards.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF NATURAL RESOURCES
Summary Schedule of Prior Audit Findings
As of March 15, 2002

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS
AND FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 750002
Finding Title: Cash Management
Finding: The Department of Natural Resources' (DNR's) internal control did not provide for timely drawdowns of federal funds.
Comments: DNR has dedicated 1.5 full-time equated positions and a portion of a section manager's time to work on federal aid. For the period January through September 2001, we have met or exceeded the monthly drawdown requirement for our major Sport Fish and Wildlife Restoration grants. The plan of action for billings for the months of October through December 2001 was to do a single billing for each month during this time period. However, this schedule is somewhat out of our control due to the approval of federal grant awards and the availability of federal funds.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 750001
Finding Title: Revenue Collected at State Parks and Harbor Sites
Finding: DNR did not maintain proper internal control over State park motor vehicle permits. Also, DNR did not reconcile revenue collected at State parks and harbor sites with the State accounting records.
Comments: The Parks and Recreation Bureau is in the process of implementing procedures for reconciling revenue for the sale of motor vehicle permits with permits issued, voided, or returned for fiscal year 2000-01.

The Parks and Recreation Bureau, in cooperation with the Office of Internal Audit, has developed an electronic system to replace the paper remittance reporting process at the State parks and harbor sites cited in the audit report. This electronic system has improved the accuracy of the individual units' reports, and it also permits more effective compilation and reconciliation of total reported remittance amounts with the State accounting records. The system was rolled out to all parks in April 2001 and has been functioning satisfactorily.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 750003
Finding Title: Payroll Cost Distribution
Finding: DNR did not maintain sufficient documentation to demonstrate that all payroll costs were accurately allocated among the various funds.
Comments: These costs are documented through the use of the State of Michigan's timekeeping system, the Data Collection and Distribution System (DCDS). All staff have been trained in the proper coding to use when recording their activities in DCDS and when errors are identified they are corrected. This information becomes available for compiling and reporting using the State's Management Information Database (MIDB). Law Enforcement Division staff use this information as documentation of the procedure to allocate payroll costs. The Division has implemented procedures to conduct analyses on hours by program and has been using these procedures for several years.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 750004
Finding Title: Federal Financial Reporting
Finding: DNR did not ensure that all federal financial status reports were accurately prepared.

Comments: Grants F-35-R-24 and F-53-R-15 no longer exist and have been replaced with new grants that operate on the State's fiscal year. A corrective action plan was put into effect on October 1, 1998 and expenditures are reconciled with financial status reports and the State's accounting system. This includes grant number NA-97-0153 and NA-98-0392 and all federal grants and cooperative agreements that DNR administers. Revised financial status reports were submitted to the U.S. Fish and Wildlife Service for grants W-127-R-16 and W-141-D-1.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 750005

Finding Title: Terminal Leave Payments Charged to Federal Grants

Finding: DNR charged terminal leave payments to federal grants using a direct cost method without the approval of the federal cognizant agency.

Comments: Effective October 1, 1998, federal aid staff, working with DNR's central accounting staff and division accountants and financial managers, review any terminal leave payments that may have been inadvertently charged to federal funds. Throughout the year and at year-end closing, agency object codes are reviewed and, if any terminal leave agency object codes were charged to federal funds, the division accountants and financial managers will journal voucher these charges to appropriate State funds. Documentation to credit \$33,174 back to the U.S. Fish and Wildlife Service for questioned costs will be reflected in two financial status reports that will be submitted no later than March 31, 2002.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 750006

Finding Title: Subrecipient Monitoring

Finding: DNR had not established procedures to monitor whether the subrecipients for the Schools and Roads - Grants to States Program complied with federal and State requirements. Also, DNR did not inform subrecipients for the Schools and Roads - Grants to States Program of all federal award information.

Comments: DNR has fully implemented and complied with the corrective action plan set in place on October 1, 2000. DNR has developed a letter

that is sent to the counties that informs them of the *Catalog of Federal Domestic Assistance (CFDA)* number and title, award year, name of the federal agency, federal requirements, and a distribution list. DNR has asked each county to report back on how, when, and to whom they disperse the federal funds. The Office of Internal Audit will then confirm in writing with the recipients any disbursements that exceed \$50,000. On September 7, 2001, a letter with the completed distribution of revenue report was sent from Sharon Edgar, Chief, Grants Administration Division, to Thomas Benson, Chief, Office of Internal Audit.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 750007
Finding Title: Post-Completion Inspections
Finding: DNR did not comply with the post-completion inspection requirements of the federal Land and Water Conservation Fund Act of 1965.
Comments: The Grants Administration Division has made substantial progress in completing inspections for the 1,234 delinquent inspections noted in the prior audit report and has a program in place to clear the remaining backlog over the next 18 months. In the last year, the Division has hired two student assistants to perform post-completion inspections and prepare file information in preparation of a post-completion self-certification process. In that time, the Division has identified those project files that have sufficient information to provide the basis of a self-certification process and conducted approximately 408 on-the-ground inspections that have been logged into the tracking database.

The Division has made arrangements to use existing DNR property analysts to conduct an annual inspection program. The backlog should be eliminated by 2003.

DEPARTMENT OF NATURAL RESOURCES

Corrective Action Plan

As of May 9, 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

Finding Number: 750201

Finding Title: Cost Allocation for Central Service Costs

Management Views: We agree with this recommendation and will comply.

Corrective Action: The Department of Natural Resources (DNR) will improve its method of documenting its cost allocation plan for restricted funds.

Anticipated Completion Date: Ongoing

Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

Finding Number: 750202

Finding Title: Appropriation for Senior Citizen License Fee Discounts

Management Views: We disagree.

Corrective Action: DNR has no authority to ensure that the Legislature will appropriate funds in a manner consistent with statutory requirements. Appropriations of funds are constitutionally assigned to the Legislature. During the audit period, the Legislature made the specific decision to appropriate these funds as General Fund. Subsequent to the audit period, the Legislature, by concurrence with Executive Order No. 2001-9, chose to eliminate any General Fund/general purpose reimbursement to DNR for senior licenses.

Anticipated Completion Date: Not applicable

Responsible Individual: Not applicable

Finding Number: 750203

Finding Title: Distribution of Indirect Cost Revenue

Management Views: No position

Corrective Action: DNR sought and was granted prior approval by the Department of Management and Budget (DMB) for the methods used to distribute indirect revenue recoveries earned during fiscal year 2000-01. We believe the result appropriately reimburses the proper funds for administrative costs incurred. We will continue to seek and follow the guidance provided by DMB on this issue.

Anticipated Completion Date: Ongoing

Responsible Individual: Thomas Benson, Chief, Office of Internal Audit

FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards for fiscal years 1999-2000 and 2000-01.

Glossary of Acronyms and Terms

central service costs	Administrative costs that are not readily assignable to any one program or funding source. Central services include executive direction, accounting, purchasing, budgeting, and human resources.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DCDS	Data Collection and Distribution System.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results or

operations or cash flows in conformity with the disclosed basis of accounting.

material
noncompliance

Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness

A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

OMB

U.S. Office of Management and Budget.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with

the applicable requirements of laws, regulations, contracts, and grants.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

subrecipient

A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

An auditor's opinion in which the auditor states that:

- (a) The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- (b) The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial

schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- (c) The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.